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OIL: NEW CHALLENGES FROM VENEZUELA,
LIBYA

International oil companies face price and ownership negotiations this month burdened with new faits accomplis in these areas as the result of decrees last month in Venezuela and Libya.

The Organization of Petroleum Exporting Countries (OPEC)* has summoned the oil industry to Geneva to "finalize" post-devaluation dollar oil prices January 10 and to begin negotiating government equity participation in existing oil concessions January 20. New ground in these areas was broken by:

-- Venezuela's December 21 decrees setting minimum and maximum export quotas near high 1970 levels and raising average oil export prices 10-11 per cent to levels which appear uncompetitive at present in all but the insulated US market unless other oil exporting countries follow suit;

-- Libya's December 7 nationalization of British Petroleum's (BP) half-interest in the large Sarir concession, an action taken, according to Libyan media, in retaliation for alleged

* OPEC's 11 members are Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, Venezuela.

3
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- 2 -

British complicity in Iran's occupation of three Persian Gulf islands.

Venezuela's minimum export quotas are a first for any major oil-producing country. Quarterly oil exports are fixed within two per cent of 1970 levels, which due to unusually strong demand averaged 3.7 million barrels per day. They are enforced by financial penalties, but the law authorizes exemptions. The higher new prices appear to leave Venezuelan oil competitive only with domestic US oil in the US market at present prices and tanker rates, thereby virtually directing the producers to sell to their US affiliates even though the same companies could market oil at a better return from affiliates elsewhere in the world. It also deprives integrated major oil companies of the supply and market flexibility they enjoy from diversified holdings.

Combined with other new controls of the past year setting prices and directing drilling operations, Venezuela's actions seem to remove most management decisions from industry control, giving Venezuela full "participation", although not in equity; permanent production controls; and, indirectly, its long-sought objective of a larger share of the US market. While some of Venezuela's controls exist elsewhere, the total is not equaled in other countries, most of which still negotiate prices and lack minimum export quotas. The oil companies may complain that

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CONFIDENTIAL

- 3 -

they are the victims of creeping nationalization without compensation or that they have been converted to public utilities.

At last word the companies were debating whether the principle--the loss of management prerogatives and supply flexibility--is more important than the economics, the probable shrinkage of potential profits. Exemptions may be sought, if only to test the government.

Libya's nationalization poses less immediate problems for American interests. It appears to have little direct economic impact on the parties involved, but is a troublesome precedent. Libya gained 50 per cent "participation" in Africa's largest producing field, twelfth largest in the Free World outside the US, thus putting itself in "partnership" with BP's former partner, the American independent, Nelson Bunker Hunt. In addition to doubting Libya's intention to compensate, the companies fear that the flimsy and irrelevant political grounds cited could hold the American and British-dominated international oil industry hostage in several countries to such policy problems as Israel, southern Africa, Vietnam, etc. The closest parallel is Algeria's seizure during the 1967 Arab-Israeli war of several relatively small American properties, none an important producing concession.

In today's depressed market, BP will not miss Sarir's five per cent contribution to total BP production. Its half-share in the 522 million barrels Sarir has produced since 1961 may have

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CONFIDENTIAL
- 4 -

recovered much or all of its investment, put unofficially at about \$200 million, from which may be deducted roughly \$50 million BP is thought to owe Libya in current debts.

Although the surprise takeover apparently had been planned, Libya has been unable so far to find technicians to produce or customers to buy its share of Sarir oil, which Bunker Hunt has declined to produce or market. Libya's overflowing treasury will not miss the \$140 million BP paid in annually. Following standard practice, BP has blacklisted its share of Sarir oil and seems to have wide support.

Outlook: The commercial effects of the Venezuelan decrees would be moderated if, as seems likely, other OPEC members negotiate dollar oil price increases raising world oil prices by perhaps 5-10 per cent to offset dollar devaluation. By making Venezuelan oil more competitive this would restore some profitability and flexibility.

The Libya-BP dispute may become an extended stalemate, since it is regarded as a test case of Libya's ability to take over its entire oil industry.

OPEC Talks: Burdened with new precedents, the oil industry may toughen its stance to deter the six Persian Gulf members and Nigeria, the main participants in this month's talks, from pressing new demands emulating Libya or Venezuela. These other

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- 5 -

OPEC members may not necessarily seek minimum export quotas, which OPEC has debated for some years, but there seems little question that a price increase attributable to currency realignment will be negotiated shortly and less question than formerly that OPEC governments will gain some sort of participation in their oil production eventually.

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